

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Division of Forestry and Wildlife  
Honolulu, Hawaii

January 13, 2011

Chairperson and Members  
Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii

Land Board Members:

**SUBJECT:** Amend Prior Board Action of October 9, 2009, Agenda Item C-3:  
Amendment No. 6 of Timber Land License No. H-101 held by  
Tradewinds Forest Products, LLC.

**Background:** At its October 9, 2009 meeting under Item C-3 (Exhibit A), the Board of Land and Natural Resources (Board) approved Amendment No. 6 of Timber Land License No. H-101 (License) held by Tradewinds Forest Products, LLC (Tradewinds), a Delaware limited liability company. At that meeting the Board approved the following recommendations for Amendment No. 6:

- a. Transfer the License in its entirety to Tradewinds Forest Products, LLC, a Delaware limited liability company (TFP) upon the closing of construction financing for the mill.
- b. Delegation of authority to the Chairperson to extend the license term for an additional ten (10) years to August 28, 2021, and to clarify License Section 4.1 relating to timber stumpage pricing. The delegation was conditioned upon the Chairperson being provided adequate assurances by December 31, 2009, that all of the anticipated mill construction financing was secured.
- c. Modification of the veneer mill permit deadlines as set by License Section 3.1.1.d.i whereby the Licensee must obtain a County of Hawaii issued and approved County Plan Approval on or before February 28, 2010.
- d. Modification of the License to change the deadline for mill construction completion from December 31, 2010 to March 31, 2011.
- e. Removal of timber stands labeled as "Replacement" stands comprising approximately 3,450 acres from the License area.
- f. Re-stating the original License and all Amendments in a single consolidated document.

Since the Board meeting of October 9, 2009, Tradewinds has faced new challenges in securing the required construction financing. Staff met with Tradewinds on July 29, 2010 to discuss the current status of their efforts to secure financing and the License terms that were in default. At that time, Tradewinds agreed to provide ongoing updates to Staff every three (3) weeks. While those updates have been provided, overall progress by Tradewinds has continued to be modest. Tradewinds is currently in default of the following License terms:

- Did not provide DLNR Chairperson adequate assurances by December 31, 2009 that construction financing had been secured for the veneer mill.
- Payment of \$50,000 for option to extend completion date for veneer plant construction from July 1, 2010 to March 31, 2011 is overdue as of July 1, 2010.
- Payments totaling \$175,000 overdue for advance monthly stumpage payments for the seven (7) month period of June, 2010 through December, 2010.

To date, the Department has received the following fees and payments relating to the License from Tradewinds, none of which are refundable to Tradewinds:

- \$183,500 in fees for extension of various License deadlines.
- \$575,000 in monthly advance stumpage fees, period of July, 2008 through May, 2010.

In a letter to the Department dated November 9, 2010 (Exhibit B; see page 6, 3<sup>rd</sup> paragraph), Tradewinds requested further License amendments in support of their continuing efforts to secure sufficient financing for veneer mill construction, summarized as follows: Modification of the License to change the deadline for mill construction completion from March 31, 2011 to December 31, 2012, with the Board reserving the unilateral right to cancel the License with a six (6) month notice to Tradewinds.

**Discussion:** After years of development and negotiation, the original License to Tradewinds was executed with a commencement date of August 29, 2001, for a term of 10 years and an option to extend an additional 10 years. The Department has not yet approved or executed an extension of the License term.<sup>1</sup>

Since January 1, 2004, and through six license amendments, the Department has provided Tradewinds continuous opportunities to secure adequate financing for construction of their veneer mill. While Tradewinds has made progress in important areas of their business development efforts, their current request occurs while Tradewinds is in default of important License terms, proposes no new milestones, and leaves performance issues relating to their License requirements open-ended.

---

<sup>1</sup> The extension of the License provided for in the Board's approval of Amendment No. 6 was never executed as Tradewinds failed to fulfill the conditions imposed by the Board on the extension.

Staff notes that without further action by the Chairperson, namely executing a License extension based on proof of construction financing, the License will automatically expire on August 28, 2011. The Department of the Attorney General has advised DOFAW that while Tradewinds continues to face challenges in complying with the License terms, under the terms of the License the Board still has the authority to extend the License beyond August 28, 2011. Despite this option, Staff proposes that the Board provide Tradewinds with a limited opportunity to become operational within the time remaining under the License. Rather than the additional 21 month extension proposed by Tradewinds, Staff proposes use of the August 28, 2011 License expiration date as the final deadline for performance. Should Tradewinds find a new entity fully committed to providing the final balance needed for construction financing in the interim and need more time to achieve financial closing, Tradewinds could be asked to provide appropriate documentation for the Department's consideration in the June, 2011 time frame.

The Board could implement Staff's proposal by amending its prior action of October 9, 2009, Agenda Item C-3, as follows:

1. Amend Recommendation 1.b, to extend the deadline for Tradewinds to provide the Chairperson adequate assurances of securing adequate construction financing from December 31, 2009 to August 25, 2011.
2. Amend Recommendation 1.d, to extend the deadline for mill construction completion from March 31, 2011, to August 25, 2011. In the event Tradewinds provides adequate assurances to the Chairperson by August 25, 2011, the deadline for mill construction completion shall be extended to August 28, 2012.
3. Add a new Recommendation No. 3: "Amend License Section 3.1.1.c.iii whereby payment for the option to extend the "Drop-Dead" date for completion of mill is due to the Department on or before August 25, 2011."
4. Add a new Recommendation No. 4: "For the seven (7) month period from June, 2010, through December, 2010, Licensee may withhold pre-paid stumpage payments. All pre-paid stumpage payments due for this period shall be paid on or before August 25, 2011. In addition, Licensee will be required to make an additional pre-paid stumpage payment equivalent to \$5,000 per month for each month that pre-paid stumpage payment was withheld ("forbearance fee"). The forbearance fee shall be due at the same time as the withheld pre-paid stumpage payments. These payments shall be subject to the same terms and conditions as stated in Section 3.1.1.b as if the payments had been made when they were due. Failure to make the withheld pre-paid stumpage payments and forbearance fee by the above deadline will constitute a default under the license."
5. Add a new Recommendation No. 5: "Amend License Section 3.1.1.b by adding a clause stating that advance stumpage payments shall be required only through and including the month of December, 2010."
6. Add a new Recommendation No. 6: "Delegate authority to the Chairperson to extend deadlines for payments of past due amounts for a period not to exceed August 28, 2012."

If approved, these proposals to the Board collectively preclude the need to establish a six (6) month notice for License cancellation option for the Department.

January 13, 2011


RECOMMENDATIONS:

That the Board of Land and Natural Resources:

1. Amend its prior action of October 9, 2009, Agenda Item C-3, as stated above.
2. Delegate to the Chairperson the authority to execute the amended and restated License subject to review and approval of the Department of the Attorney General.

Respectfully submitted,




 PAUL J. CONRY  
Administrator

Attachments:

Exhibit A – Board Action of October 9, 2009, Agenda Item C-3  
Exhibit B – November 9, 2010 letter from Tradewinds

APPROVED FOR SUBMITTAL:

  
\_\_\_\_\_  
WILLIAM J. AILA, JR., Interim Chairperson  
Board of Land and Natural Resources

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Division of Forestry and Wildlife  
Honolulu, Hawaii

October 9, 2009

*as amended*  
**Approved by the Board of  
Land and Natural Resources  
at its meeting held on**

10/09/09

Chairperson and Members  
Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii

Land Board Members:

**SUBJECT:** Amendment No. 6 of Timber Land License No. H-101 held by  
Tradewinds Forest Products, LLC.

**Background:** At its June 12, 2009 meeting under Item C-1, the Board of Land and Natural Resources (Board) approved Amendment No. 5 (Exhibit A) of Timber Land License No. H-101 (License) held by Tradewinds Forest Products, LLC (Tradewinds), a Delaware limited liability company. The principal component of Amendment No. 5 included changing Section 3.1.1 "Penalty Fees and Payments" to allow a forbearance period of seven (7) months in the pre-paid stumpage payments by Tradewinds to the Department for the period of February 2009 to August 2009. The monthly pre-paid stumpage amount of \$25,000 plus a monthly forbearance fee of \$5,000 totaled \$210,000 for the seven (7) month period, with a specified due date of October 10, 2009. The Board also directed staff to report back during October 2009 as to whether this \$210,000 payment was made by Tradewinds, and if not to initiate the process of terminating the License.

In a letter concurrently delivered to the Department (Exhibit B), Tradewinds has requested further amendments to the License to support closing of their financing efforts for veneer mill construction as follows:

1. Assignment of the License in its entirety to Tradewinds Forest Products LLC, a Delaware limited liability company (TFP).
2. Extension of the term of the License an additional ten (10) years to August 28, 2021. Relating to this proposed term extension, Tradewinds also requested technical edits to License Section 4.1 to clarify the framework and timing for timber stumpage price negotiations.
3. Change the mill permit deadlines as set by License Section 3.1.1.d.i whereby the "Licensee must obtain County of Hawaii issued and approved building permits for all major components of veneer plant no later than December 31, 2009." The request is to modify the terms to require proof of Tradewinds receipt of a Hawaii County Plan

Approval on or before February 28, 2010.

4. Change the deadline for completion of the mill from December 31, 2010, to March 31, 2011.
5. Remove timber stands labeled as "Replacement" stands, comprising approximately 3,450 acres, from the License.

**Discussion:** After review and approval by the Department of the Attorney General ("DAG"), License Amendment No. 5 was fully executed on August 31, 2009. The \$210,000 forbearance payment from Tradewinds was received by the Department on September 29, 2009. Tradewinds is current relating to all terms of its License (as amended) with the Department. Each current Tradewinds License amendment request (Background paragraphs 1 through 5) is discussed in the corresponding paragraphs below:

- a. Staff supports the Tradewinds proposal that the License be transferred in its entirety to Tradewinds Forest Products LLC (TFP). Although this is the same name as the existing licensee, the intent is for Tradewinds to change its name. The name Tradewinds Forest Products LLC would then be available for use by TFP. TFP would then become the licensee through an assignment.

At the time that construction funding is secured, equity ownership of TFP will be transferred 40% to Tradewinds and Rockland Capital (Tradewinds' principal investor) and 60% to GMO Renewable Resources, LLC (GMORR). The assignment of the License would occur at the same time that GMORR becomes one of the owners of TFP.

Staff notes that Don Bryan, one of the principals of Tradewinds, will continue to be involved in operations in Hawaii and will remain as a 20% voting member in TFP. Staff also notes that GMORR is the forest investment arm of a Boston based global investment management firm. GMORR has also acquired a 13,000 acre timber plantation on the Hamakua coast that it intends to log and process through TFP's mill. There will still be ample experience and qualifications of the management team to bring this project to completion.

- b. Staff supports Tradewinds' request to exercise the option to extend the License term for an additional ten (10) years to August 28, 2021, and to clarify License Section 4.1 relating to timber stumpage pricing through technical edits. Tradewinds clearly needs the extended license term to close on its mill financing efforts, and the Department remains in the position to achieve the primary objectives of the License should Tradewinds become operational including: economic and employment benefits to Hawaii; growth of the forest products industry; revenue; and other considerations. Staff recommends that approval of the exercise of the option to extend the License term be conditioned on the Licensee providing adequate assurances that all of the anticipated construction

financing has been secured and will be available upon transfer of ownership to GMORR. Staff recommends that authority be delegated to the Chairperson to approve the extension of the License term for an additional ten (10) years condition on the Chairperson being provided adequate assurances that all of the anticipated construction financing has been secured and will be available upon transfer of ownership to GMORR. It shall be in the Chairperson's sole discretion to determine whether adequate assurances have been provided

Relating to clarifications on timber stumpage pricing, the current License (as amended) provides a set framework for pricing through five (5) years after the Tradewinds veneer plant commences commercial operation. This condition was adopted to support Tradewinds financing efforts. Thereafter the Department and Tradewinds are compelled to negotiate new timber stumpage pricing with the intended effect of reflecting actual market conditions five (5) years after the mill's startup. The proposed technical amendments to License Section 4.1 would clarify this framework.

- c. Staff supports the Tradewinds request to amend the License permitting milestone by simplifying the milestone to pertain solely to a County of Hawaii issued and approved County Plan Approval and extending the deadline by approximately two (2) months. The primary milestone relating to Tradewinds development efforts remains their closing on financing to construct the veneer mill, with a deadline of December 31, 2009. Staff is confident that should Tradewinds be successful in financing, that they will build the veneer mill. Furthermore, Tradewinds discussed in their recent letter the fact that the "building permit" is actually a sequence of County of Hawaii permits, and it seems logical that the Department focus the permit milestone on one of the earlier/primary permits in the sequence, i.e. the County Plan Approval.
- d. Staff supports the Tradewinds request to amend the License by changing the deadline for completion of the mill from December 31, 2010, to March 31, 2011. The change is necessitated by the additional time it took for Tradewinds to identify its lead lender. The change would bring the construction schedule in line with the estimated date for closing the financing on November 30, 2009.
- e. Staff supports the Tradewinds request to amend the License by removing timber stands labeled as "Replacement" stands comprising approximately 3,450 acres (as listed in License Exhibit C, as amended). These stands represent acreage that was originally planted by the State with species that were not well suited to the growing conditions in Waiakea, and therefore exhibited very poor growth. These stands were included in the original License with the anticipation that Tradewinds would clear and replant the acreage to timber species known to be productive at Waiakea. Because the potential License term remaining is less than 12 years, Tradewinds indicated that it is no longer viable for them to plant and harvest mature trees on these acres. Tradewinds prefers to drop the acres now and

potentially bid on them again in a future request for proposals from the Department that could be associated with a longer term.

During recent discussions both Tradewinds and Staff have agreed that the original License document and multiple amendments has become unwieldy. As such, Staff also seeks Board approval to revise and restate the License plus all amendments as a single consolidated document.

#### RECOMMENDATIONS:

That the Board of Land and Natural Resources:

1. Approve Amendment No. 6 to Timber Land License No. H-101 to:

- a. Transfer the License in its entirety to Tradewinds Forest Products LLC, a Delaware limited liability company (TFP) upon the closing of construction financing for the mill.
- b. Delegate the authority to the Chairperson to extend the license term for an additional ten (10) years to August 28, 2021, and to clarify License Section 4.1 relating to timber stumpage pricing through technical edits as detailed above. The delegation is conditioned upon the Chairperson being provided adequate assurances that all of the anticipated construction financing has been secured and will be available upon transfer of ownership to GMORR. It shall be in the Chairperson's sole discretion to determine whether adequate assurances have been provided. *\* 100% Dec 31, 2009*
- c. Modify the veneer mill permit deadlines as set by License Section 3.1.1.d.i whereby the Licensee must obtain a County of Hawaii issued and approved County Plan Approval on or before February 28, 2010.
- d. Modify the License to change the deadline for mill construction completion from December 31, 2010 to March 31, 2011.
- e. Remove timber stands labeled as "Replacement" stands comprising approximately 3,450 acres from the License as listed in License Exhibit C as amended.
- f. All proposed amendments shall be subject to review and approval by the Department of the Attorney General.

2. Approve consolidating the original License and all Amendments in a single consolidated document subject to review and approval by the Department of the Attorney General.



October 9, 2009

Respectfully submitted,



PAUL J. CONRY  
Administrator

Attachments

Exhibit A – Executed Timber License H-101 Amendment No. 5

Exhibit B – September 28, 2009 letter from Tradewinds with attachments

APPROVED FOR SUBMITTAL:



LAURA H. THIELEN, Chairperson  
Board of Land and Natural Resources

**EXHIBIT A**

**FIFTH AMENDMENT  
OF  
TIMBER LAND LICENSE NO. H-101**

This Fifth Amendment made and entered into this 31<sup>ST</sup> day of AUGUST, 2009, by and between the State of Hawaii, by its Board of Land and Natural Resources ("Licensor") and Tradewinds Forest Products, L.L.C. a Delaware limited liability company located at P.O. Box 43, Ookala, Hawaii, 96774 ("Licensee") relates to that certain Timber Land License No. H-101 between Licensor and Licensee dated August 29, 2001, covering timber harvest and replanting activities in the Waiakea area of the island of Hawaii (the "TLL"). Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the TLL.

**RECITALS**

WHEREAS, this TLL was amended in part by the parties on March 30, 2005, by way of the Amendment of Timber Land License No. H-101 ("Amendment No. 1"); and

WHEREAS, this TLL was amended in part a second time on July 8, 2005, by way of the Second Amendment of Timber Land License No. H-101 ("Amendment No. 2"); and

WHEREAS, this TLL was amended in part a third time on October 10, 2005, by way of the Third Amendment and Waiver of Timber Land License No. H-101 ("Amendment No. 3"); and

WHEREAS, this TLL was amended in part a fourth time on March 20, 2009, by way of the Fourth Amendment of Timber Land License No. H-101; and

WHEREAS, Licensee desires to amend in part for a fifth time certain provisions of the TLL; and

WHEREAS, the State of Hawaii, Board of Land and Natural Resources, at its meeting held on June 12, 2009, has approved certain amendments to the TLL to allow for the continued partnership between Licensor and Licensee.

**AGREEMENT**

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Licensor and Licensee hereby agree to amend the TLL as provided hereunder.

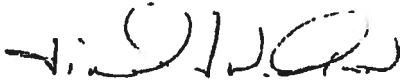
A. **Section 3.1.1 Penalty Fees and Payments.** The parties wish to modify Section 3.1.1.b. to allow for a forbearance period of seven (7) months in the pre-paid stumpage payments. Sections 3.1.1.b. will be amended by deleting it in its entirety and replacing it as follows

b. *Milestone 3.* If Licensee fails to achieve Milestone 3

**TRADEWINDS FOREST PRODUCTS, LLC**  
**(Licensee)**

By Donald P. Bryan  
Donald P. Bryan, President and Managing  
Member

Approved as to form:



Deputy Attorney General

Dated: Aug 1, 2007

Fifth Amendment of Timber Land License No. H-101 State of Hawaii Tradewinds Forest  
Products, LLC, a Delaware limited liability company

**EXHIBIT B**

28 September 2009

Via Email and U.S. Mail

Ms. Laura Thielen  
Chairperson  
Department of Land & Natural Resources  
P O Box 621  
Honolulu, Hawaii 96809

Re: Proposed Amendments to Timber Land License H-101  
Waiakea Timber Land License with Tradewinds Forest Products LLC

Aloha Chair Thielen,

Tradewinds Forest Products LLC ("Tradewinds") is very close to completing the needed financing to construct and start-up its veneer mill at O'okala. Equity in the amount of \$20 million has been committed from two sources (described below) and with that commitment in hand, our investment bankers recently reported favorable responses from a number of banks interested in loaning the remaining \$35 million. We now expect this combined debt and equity financing to close near the end of November. We estimate that the mill will be constructed and operating not later than sixteen months from completing the financing.

With that in mind, let me outline a few changes to the Waiakea Timber Land License H-101 (the "Waiakea License" or "License") which we need to complete our financing.

**1. *Transfer of Waiakea License to a Tradewinds Affiliate and Add Associated License Amendments, including Obligation of Affiliate to Cut a Substantial Amount of the Timber Over the Term of the License.***

**Background.** Tradewinds' new equity partner in the O'okala mill project is GMO Renewable Resources, LLC ("GMORR"), the forest investment arm of Grantham, Mayo, Van Otterloo & Co. (GMO), the Boston-based global investment management firm with over 400 employees and \$89 billion in client assets under management. GMORR has 30 employees managing approximately \$3.1 billion in timber assets globally, approximately 45% of which are located in the U.S. GMORR has significant timber investments throughout the Pacific Rim, including investments in Costa Rica, Chile, New Zealand, and Australia. The manager for GMORR in this investment is Bob Saul. For more information on GMORR and Bob Saul, see the enclosed slide presentation.

After considering an investment in Hawaiian timber for a number of years, GMORR decided in August 2008 to purchase the Hamakua timber plantation, a 13,000-acre eucalyptus plantation on the Hamakua Coast. At the time of purchase, GMORR believed that there were a number of possible purchasers of its Hamakua timber both on and off the island. Over the past year, however, they have come to realize that the only viable purchaser of its Hamakua timber in the near term is Tradewinds. There is no other commercially-sized buyer that GMORR believes will be operational in the near-term. Furthermore, Tradewinds contends there is no other foreseeable purchaser of the timber capable of paying the prices Tradewinds can pay or who will create the number of high-paying jobs that Tradewinds will create. After scouring Hawaii's timber industry landscape over the past year, GMORR now concurs in this belief.

Over the past couple years, Tradewinds has sought to increase the supply of timber for its veneer mill. Securing adequate timber supply for a two-shift veneer mill operation has been a consistent demand of both debt and equity investors in the Tradewinds project. While it has entered into one smaller timber supply agreement in addition to the Walakea License, Tradewinds did not yet have sufficient long-term timber cutting rights necessary to supply a two-shift operation.

Realizing their need for one another, GMORR and Tradewinds, along with Rockland Capital (Tradewinds' principal investor), have agreed to form a joint venture whereby (i) GMORR will contribute its Hamakua timber and \$10 million in cash, (ii) Rockland will contribute \$10 million in cash, and (iii) Tradewinds will contribute its mill property, timber cutting contracts, and various mill development assets (principally its development team, engineering plans and studies, construction and equipment contracts, and permits) into a joint venture, the purpose of which is to construct and operate a veneer mill to produce eucalyptus veneer from Hawaiian timber owned and managed by the joint venture principally for sale to the U.S. mainland market. For tax efficiency reasons, as currently proposed the joint venture will be structured into two separate, but equally-owned and equally-controlled, entities—Tradewinds Forest Products, LLC ("TFP"), which would own and operate the veneer mill, and LHF Sunbear, Inc. ("Sunbear"), a real estate investment trust (REIT) that would own and manage the timber. Sunbear would then enter into a timber supply agreement with TFP to supply TFP with all the timber it would need.

The structure of the proposed joint venture is depicted in the attached diagram. As you can see, GMORR will own approximately 60% of the equity in each of Sunbear and TFP and Tradewinds/Rockland will own the remaining 40% of each entity. However, Sunbear and TFP will be "equally-controlled" because they will each be managed by three members—GMORR, who will have two votes, Rockland, who will have two votes, and Don Bryan, who will have one vote.

By placing the timber assets into a REIT, the joint venture would consist of two entities—the timber ownership entity, Sunbear, and the mill ownership entity, TFP. This would allow the joint venture to achieve certain tax efficiencies. As with all competitive ventures Tradewinds will need all the efficiencies available to survive. In recent years, most timber companies have converted their timber ownership arms to a REIT structure similar to the Sunbear/TFP structure.

This bifurcated structure is a desirable condition of GMORR's investment in the joint venture. . Although this is the desired structure for the joint venture, we understand the Department of the Attorney General has concerns with whether restructuring the License in this manner would be in accordance with the State Procurement Code. Accordingly, we are requesting the Board's approval of an alternative interim restructuring of the License, as described in the following paragraph.

Transfer of the Waiakea License to a Newly-Formed Entity—Tradewinds Forest Products LLC, a Delaware limited liability company. As you can see from the above-described structure, Tradewinds would ultimately like to transfer the Waiakea License to Sunbear. However, the Attorney General's office has raised an objection to such a transfer at this time. Given this objection, we propose to transfer the License to a newly-formed entity, TFP, which will build the mill. Existing Tradewinds will change its name to Tradewinds Investments, LLC to permit the newly-formed LLC to carry the name Tradewinds Forest Products. The newly formed Tradewinds Forest Products will be owned 40% by Tradewinds/Rockland and 60% by GMORR. This transfer will allow us to move forward with financing and constructing the mill as planned. Accordingly, we now request the Board's permission to transfer the License to the newly-formed Tradewinds Forest Products. The transfer will occur at the time of, and is conditioned on, the financial closing of construction funding. Later, after further discussions with the DLNR staff and more importantly the Attorney General's office, we may come back to request a transfer of the License to Sunbear.

***2. Exercise of Option to Extend License Term Another Ten Years to August 28, 2021 along with associated Timber Pricing Amendment.***

By this letter, Tradewinds gives the DLNR notice of its decision to exercise the option set forth in Section 2.1 of the Waiakea License to extend the term of the license an additional 10 years to August 28, 2021. The extension is a requirement of Tradewinds' lenders as a condition of providing debt because they need certainty of raw material supply and pricing. As to pricing, the last paragraph of Section 4.1.1 of the Waiakea License provides that the stumpage price during the 10-year extension shall remain the same as set forth in Section 2.1 (subject to the adjustments set forth therein) through the fifth anniversary of the start-up of the mill. Thereafter, the stumpage price shall be as mutually agreed between Tradewinds and the DLNR. Rather than agreeing now as to what the stumpage price should be after the fifth anniversary of the start-up of the mill, DoFAW staff would rather wait until that time and determine the price through mutual agreement. We are comfortable with that approach but propose that some clean-up or additional language be added to the License to clarify the intent of the parties. First we propose adding language to the effect that the stumpage pricing for the remainder of the License term following the fifth anniversary of the start-up of the mill be determined by negotiations between the parties during the year immediately preceding the fifth anniversary of the start-up of the mill; with the continued proviso contained in Section 2.1 that the DLNR will not unreasonably withhold the extension of the License if we have satisfactorily met the conditions of the License and are offering a fair market stumpage price. The last five words of Section 2.1. ("for a second rotation harvest") should be deleted as this would inadvertently limit this provision to apply only to a second rotation which is no longer the intent. Second, for clarity sake we would like to

define the term "start-up of the plant" to mean the date on which the plant first commences commercial production of veneer. Finally, to clean-up a typographical error in the dispute provision (Section 9.5), we proposed that the phrase "either party" in the second sentence, third line be changed to "both parties."

**3. *Amendments to Waiakea License Relating to Deadlines for Certain Mill Permits and Completion of Mill Construction.***

**Change Mill Permit Deadline.** Currently, the Waiakea License (at Section 3.1.1.d.i) requires Tradewinds "to obtain County of Hawaii issued and approved building permit[s] for all major components of [the] veneer plant no later than December 31, 2009 . . ." There are two problems with this requirement. First, in constructing an industrial facility such as the veneer mill, the "building permit" is comprised of a series of smaller permits and approvals that are acquired over time as the project is engineered and constructed. Many of the permits and approvals build on one another (i.e., one permit cannot be applied for until another permit has been obtained; either because the permitting authority deems it so or because the work to complete the application requires approval of one permit to start the work on the other.) Thus, it is customary for many permits to be applied for and obtained while construction is in process. See the attached Permitting and Early Construction Status/Schedule for a listing and status of each of the various permits and approvals required and the early construction activities that follow receipt of these permits and approvals.

As you can see, to remain on schedule for completion of the mill by March 31, 2011, the actual building permit is not expected (or needed) until mid-June 2010, even though the heavy construction is planned to resume in February 2010, following receipt of County Plan Approval. We believe the County Plan Approval is a more appropriate milestone than the building permit for two reasons: (1) it is an important "gating permit" in that it deals with a number of high-level issues important to mill neighbors (archeology, lighting, sound, ingress/egress, etc.) and must be received before the County will review the applications for most of our other permits, including the site grading permit, the building demolition permit, the building refurbishment permit, the building foundation permit and the building permit (2) It comes four months earlier in the construction schedule than the building permit (Feb 28, 2010 vs. June 30, 2010) so it will give the DLNR an earlier assurance that the project is on schedule. It is important to note that the permitting authorities do not have discretion in granting these permits and are required to issue them so long as Tradewinds' construction plans meet the regulatory terms and specifications for issuing the permit.

Second, several of our permit applications require further engineering work prior to submission, which work cannot begin until additional funding is obtained.

For these reasons, Tradewinds requests that Section 3.1.1.d.i of the Waiakea License be revised to state that Tradewinds must obtain the County Plan Approval (rather than the building permit) on or before February 28, 2010 (rather than December 31, 2009).

Ms. Laura Thielen  
State of Hawaii, Dept. of Land and Natural Resources  
28 September 2009  
Page 5 of 5

Change in Deadline for Completion of Mill. As you can see from the attached Permitting and Early Construction Status/Schedule, our estimated date for completing construction of the mill has moved from December 31, 2010 to March 31, 2011. This is a recent change due to the additional time it has taken to identify our lead lender. While we have contacted and had discussions with a handful of lender's interested in leading the debt financing, we have not selected a lead lender or negotiated final terms of the loan. These lead banks are still in the process of gathering information on the project before making a final loan commitment. We are assisting them daily in their diligence process, but these things take time especially given the current economic climate. In addition to discussions with potential lead lenders, we have had discussions with a number of other lenders willing to participate in the loan syndicate, including a lender willing to loan \$14 million on the project. To bring our construction schedule in line with our estimated date for closing the financing on November 30, 2009, we request that Section 3.c.iii of the Waiakea License be revised to state that the construction completion deadline for the mill be moved from December 31, 2010 to March 31, 2011.

**4. Elimination of the Replacement Stands from the Waiakea License.**

As I mentioned to Paul Conry on the phone the other day, we have a problem with our right to rent the Replacement Stands and plant trees for later harvest (see Section 8 of the License). Given that (1) our planting of the Replacement Stands will occur at the earliest in years 2011, 2012, and 2013, (2) it takes eucalyptus trees at least ten years to mature into veneer quality timber (and likely longer given the poor growing conditions of the Replacement Stands), and (3) the License expires in August 2021, there simply will not be enough growing time to allow the trees to mature to the stage of harvest as veneer trees. Mr. Conry suggested that we simply remove the Replacement Stands and any reference to it in the License. That will allow the DLNR to re-auction the Replacement Stands when it sees fit and Tradewinds can bid on it then, if it so chooses, at which time a new 15 or 20-year lease will commence giving adequate time for the replanted trees to grow. We are comfortable with that approach.

I look forward to meeting with you next week to discuss the matters raised in this letter. If you have any questions prior to the meeting, please call me at (808) 962-6803.

Sincerely,

Don Bryan  
President and CEO  
Tradewinds Forest Products, LLC

c: S. Harlan  
R. Saul  
J. Schifferdecker, Esq



# Tradewinds' Permitting & Early Construction Status/Schedule

Based on Nov 30, 2009 Financial Close

Permit or Construction Task	Status	Time Required From 11/30/09	Estimated County	Actual Permit Issued or Approval Received	Construction Schedule
			Review Period	Permit Issue	
Estimate Nov 30, 2009 January 1 - Nov 30, 2010					
<b><u>Debt &amp; Equity Financing Closes:</u></b> <b><u>Purchase Equipment &amp; Materials</u></b> Log Line & Lathe Line Consisting of the Following: Log Handling Line Debarker Cut-off Saw Peeling Line Lathe Deck Peeling Line Tiptie to Stacking Equipment Packaging Line Core Chipper Veneer Chipper Vibratory Conveyors Chip Screen Hog	No Permit Required Ninety-five percent of the engineering to design and specify this equipment is complete (\$583,000). The terms to purchase this equipment have been negotiated and the pricing has been received.	4 - 52 wks			
Balance of Plant Consisting of the Following: Debarker Building Lathe Line Building Warehouse Fire Water Pump and Tank Electrical Interconnection Equipment Log Unloading Crane Truck Scale	Twenty to twenty-five percent of the site/civil work and specifications for this equipment have been completed. Potential sources for all equipment have been identified and several Request for Proposal packages have been generated and issued.				
<b><u>Federal Permits</u></b> Storm Water Treatment (NPDES) (SWPPP)	Permit Received	Complete		July 14, 2008	
<b><u>State Permits</u></b> DOH Air Permit (needed for Cogen only) DOH Constr. Consent for Veneer Mill DOH Process Water Disposal DLNR Wet Drilling	Permit Received Approval Letter Received Approval Letter Received Later mid-construction	Complete Complete Complete 7 wks		October 3, 2008 July 14, 2008 September 18, 2008	April 2, 2010 June 9, 2010

# Tradewinds' Permitting & Early Construction Status/Schedule

Based on Nov 30, 2009 Financial Close

Permit or Construction Task	Status	Time Required From 11/30/09	Estimated County		Actual Permit Issued or Approval Received	Construction Schedule
			Review Period	Permit Issue		
<b>County Permits &amp; Construction</b> <b>County Plan Approval</b> Consists of the following: Landscaping design Lighting design Asbestos/lead review Archeology/historical review Sound study Ingress/egress plan Preliminary grading plan Site Grading Permit Prerequisite for the following work: Storm Water Pollution Prevention Install Survey/Layout Site Clean/Grub/Grade Site Storm Water Pond Site Security/Fencing Excavate Hog Fuel Area Process Water Pond Storm Water Drainage System Underground Electrical Excavate Equipment Foundations Building Demolition Permit	Engrg Work Complete-Prelimin Approval Rec'd Engrg Work Complete-Prelimin Approval Rec'd Engrg Work Complete-Prelimin Approval Rec'd Engrg Work Complete-Prelimin Approval Rec'd Engrg Work Complete-Prelimin Approval Rec'd Engrg Work Complete-Prelimin Approval Rec'd Engrg Work Complete-Prelimin Approval Rec'd 75% of Engineering Work Complete 45% of Engineering Work Complete	4 wks	3 wks	January 19, 2010		
		Complete				
		Complete				
		Complete				
		Complete				
		Complete				
		Complete				
		4 wks	3 wks	January 19, 2010		
		8 wks	2 wks	February 9, 2010		2 wks mobilize Feb 21, 2010
						February 23, 2010
						February 23, 2010
						March 9, 2010
						March 9, 2010
						March 9, 2010
						April 2, 2010
						April 2, 2010
						April 2, 2010
						April 2, 2010
						Apr 2 - Jun 17, 2010
	Additional Engineering Required	3 wks	2 wks	January 5, 2010		March 7, 2010

# Tradewinds' Permitting & Early Construction Status/Schedule

Based on Nov 30, 2009 Financial Close

Permit or Construction Task	Status	Time Required From 11/30/09	Estimated County		Actual Permit Issued or Approval Received	Construction Schedule
			Review Period	Permit Issue		
<b>Building Refurbishment Permit</b>	Additional Engineering Required Permit Not Required	9 wks	2 wks	February 16, 2010		March 9, 2010
Form, Rebar & Pour Equip Foundations for: Lathes* Log Deck* Fire Water Tank* Debarker* Chop Saw* Hog* Truck Scale* Nine other Foundations* Septic Permit Install Service Water Piping* Install Process Water Pump* Install Fire Pump & Service Water Skids* Building Foundation Permit						April 19, 2010 April 26, 2010 April 26, 2010 April 26, 2010 April 26, 2010 April 26, 2010 May 2, 2010 May 2 - May 16, 2010 May 2, 2010 May 2, 2010 May 9, 2010 May 31, 2010 June 15, 2010
Design & Install Septic System Permit Not Required Permit Not Required Permit Not Required Foundations must be designed using loads from building manuf. (see below) Permit Not Required Permit Not Required Permit Not Required Permit Not Required Permit Not Required Permit Not Required		16 wks*	2 wks	April 6, 2010		June 16, 2010 June 16, 2010 June 30, 2010 June 30, 2010 June 30, 2010 June 30, 2010 June 30, 2010 June 30, 2010
Foundations must be designed using loads from building manuf. (see below) Permit Not Required Permit Not Required Permit Not Required Permit Not Required Permit Not Required Permit Not Required		22 wks*	6 wks	June 15, 2010		June 15, 2010 June 15, 2010 June 15, 2010 June 15, 2010 June 15, 2010 June 15, 2010 June 15, 2010
Steps required include: Write specification for building. Go out for bid for building. Award building supplier. Building supplier design building. County review design Issue Building Permit This work typically is done in phases separated by disciplines listed in first column		22 wks	8 wks	June 30, 2010		June 30, 2010 June 30, 2010 June 30, 2010 June 30, 2010 June 30, 2010 June 30, 2010 June 30, 2010

June 30, 2010 - Mar 11, 2011  
January 11, 2011  
March 31, 2011

\* Controlled by construction sequencing and timing, not permitting.

**Costs Bids & Remainder of Mill**  
Estimated Building Occupancy Permit  
Estimated Completion of Construction



**GMO Renewable Resources, LLC**

*Presentation*

# Executive Team



**Eva Greger** Ms. Greger is the managing director of GMO Renewable Resources, LLC. Prior to joining GMO in 1997, she was vice president of timberlands for UBS Asset Management with responsibility for evaluating and structuring acquisitions. Ms. Greger earned her B.A. in Economics from Harvard University.

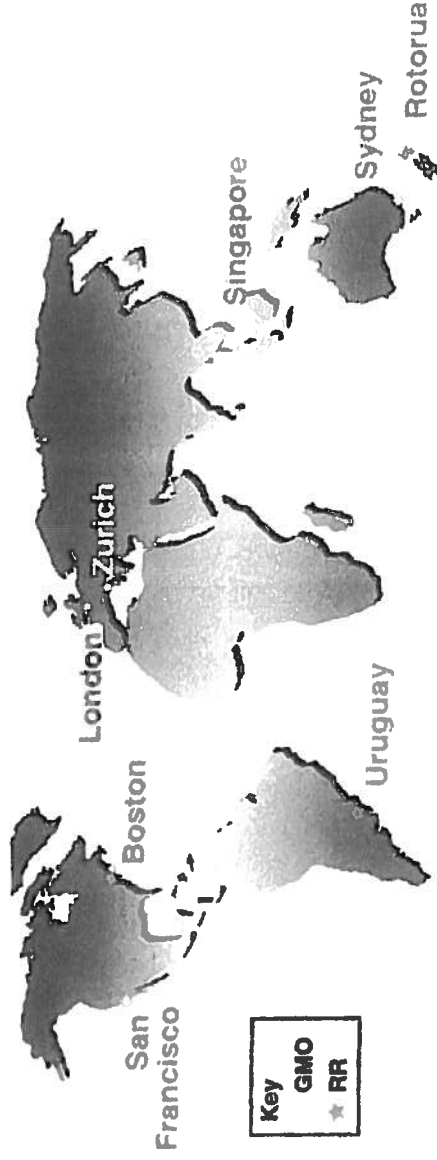


**Ian Jolly** Mr. Jolly is responsible for the management of renewable resources' Timberland investments outside of the United States, principally, New Zealand, Australian and South America and covering some 652,000 acres. Prior to joining GMO, Mr. Jolly was a senior consultant and director with Chandler Fraser Keating Ltd – a leading New Zealand based forest consultancy. Mr. Jolly has over twenty years of experience in the industry and has managed multi-disciplined teams involved in the sale or purchase of almost \$6.0 billion of plantation forests covering due diligence, wood flow and cash flow development, assessment of comparable sales and the analysis of implied market discount rates. Mr. Jolly earned his honors degree in Forestry from the University of Canterbury, Christchurch NZ.



**Robert Saul** Mr. Saul is responsible for all U.S. acquisitions in client portfolios for GMO Renewable Resources, LLC. Prior to joining GMO in 1998, he worked as the general manager of GRAPE Realty Trust and president of Timber Farm Company. Mr. Saul earned his B.A. in English from Amherst College and an M.P.P. from Harvard University.

# GMO Renewable Resources



- GMO Renewable Resources, LLC, with offices in Boston, Rotorua, New Zealand, and Montevideo, Uruguay, is the forest investment arm of Grantham, Mayo, Van Otterloo & Co. LLC (GMO).
- GMO Renewable Resources is skilled in the evaluation, acquisition, and management of both natural forests and plantations in New England, Appalachia, the Pacific Northwest, the southern U.S., Australia, New Zealand, and Uruguay.
- GMO Renewable Resources has created a broad and diverse portfolio of timber investments in 11 timber funds and 6 designated property investments. We currently have \$3.2 billion in assets under management\* from 392 clients.

# GMO Renewable Resources

---

- GMO Renewable Resources has 30 employees wholly dedicated to managing timber investments, and is supported by the operations of GMO, with more than 400 employees.
- We have 9 employees responsible for offshore timber management in New Zealand; our team there represents the largest on-the-ground TIMO (Timber Investment Management Organization).
- Our office in Uruguay is staffed by 2 Uruguayan citizens, and we plan to staff additional employees.
- Prior to joining GMO, two key members (Eva Greger and Ian Jolly) pioneered the first investment by U.S. institutional investors in New Zealand timberland – the Nelson project in 1990. The team remains a leader in timber investing outside the U.S.

# GMO Renewable Resources

---

## *Distinguishing Characteristics*

### **Diverse Forest Holdings: Unique Knowledge Base**

- Various hardwood and softwood species
- High yield plantations and natural forests
- U.S. and non-U.S. properties

### **Focus on Pure Timber Returns**

- Conservative price assumptions for land and timber
- Avoid “real estate-based” return scenarios
- Focus on forest productivity and timber market characteristics
- Inventory – special focus on tree-size distribution and grade

### **Sustainable Management that Builds Value**

- Minimize environmental and regulatory risks
- Work with conservation groups to augment deal flow
- Grow toward exit value



# Renewable Resources Team – Worldwide

## **Boston Head Office Team**

Eva Greger, Managing Director  
Danielle Jankowich, Head of Investment Operations  
Christine Tongol, Controller  
Christina Fernandez, Assistant Controller  
Liz Murphy, Operations Manager  
Erika Ficken, Product Specialist  
Ben Van Dahm, Analyst; Jessica Estep, Jr. Analyst  
Amy Krumsiek, Marketing & Executive Administrator  
Fund Accountants: Nelson Vieira, Jackie Chen, Poy Yee Vong  
Stacy Sloan, Treasurer  
Brian Warren, AP Clerk  
Joanne Ferrao, Administrative Assistant

## **Amherst U.S. Forestry Team**

Bob Saul, Director of U.S. Forestry  
George Motta, Head of Timber Marketing  
Charlie Thompson, Senior Investment Forester /  
Head of Silviculture  
Christina Petersen, Investment Forester /  
Alternative Land Use Manager  
Susan Wall, Administrative Services and Research

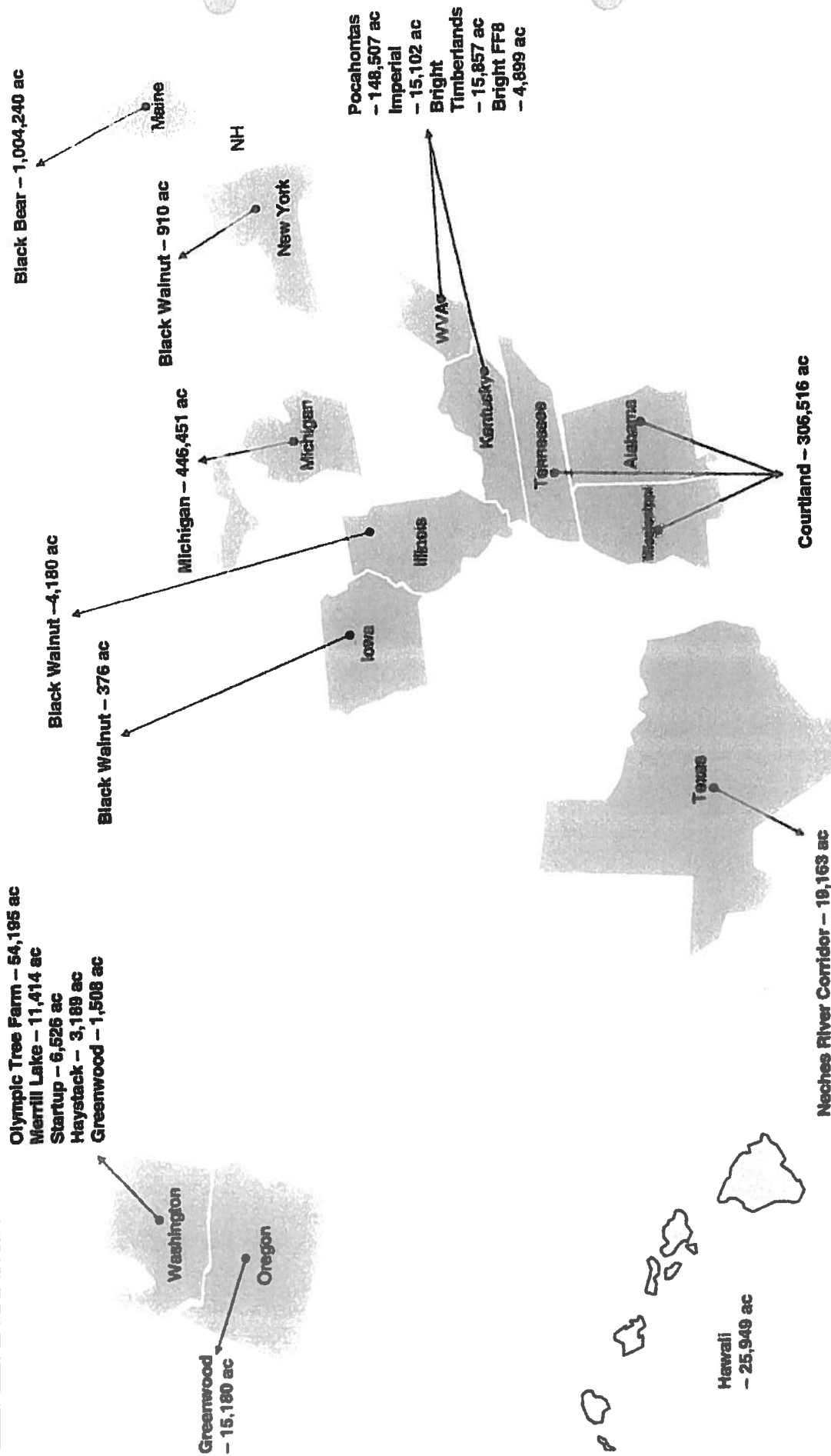
## **Rotorua International Forestry Team**

Ian Jolly, Director GMO Renewable Resources New Zealand  
Steve Gerrard, Accounting Manager  
Ross MacDonald, Investment Forester  
Brian Rust, Investment Forester  
John Barker, Forester  
Wayne Veysey, Accountant  
Colin Larsen, Accountant  
Murray Karl, Accountant

## **Montevideo South American Forestry Team**

Diego Frederick, Forest Investment Manager for Latin America  
Pablo Tarigo, Forest Manager

# GMO Renewable Resources U.S. Property Holdings

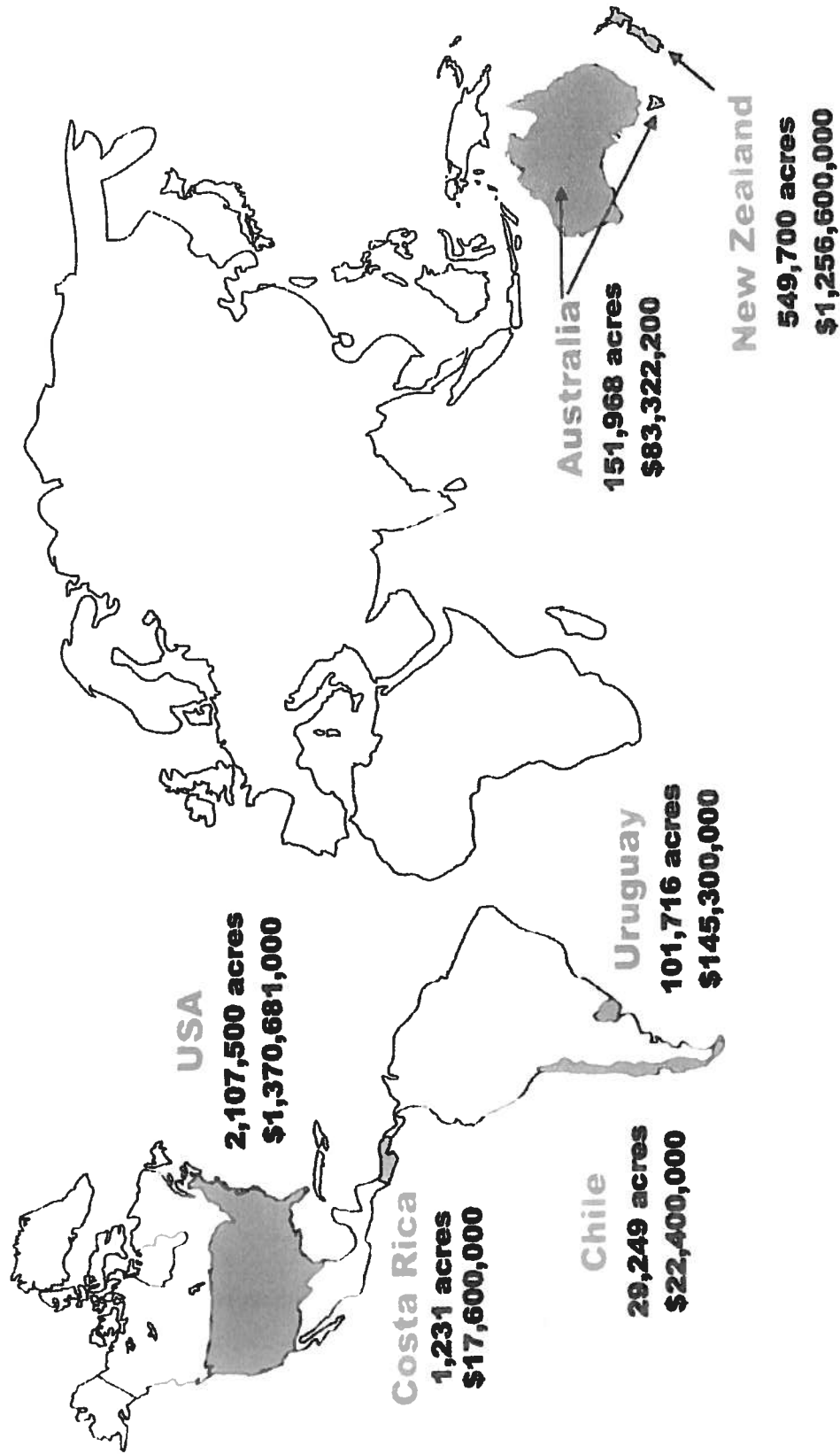


Note: For investments made through joint ventures with third parties, acreage listed represent GMO Renewable Resources' share of such joint ventures.

As of 3/31/09

# Globally Diversified Timber Funds – GMORR Fund and Designated Property Investments

*By acreage and value*



Note: For investments made through joint ventures with third parties, values listed represent GMO Renewable Resources' share of such joint ventures. Values all in USD as of 12/31/08 spot rates.

# Long Horizons Fund

---

- The GMORR fund that is invested in the Hawaii land is the GMO Long Horizons Fund (LHF)
- LHF, formed in 2007, has a 20-year term and is designed for long term investing
- GMORR has a commitment to its LHF investors to manage with a focus on environmental sustainability

# Notice

---

The information presented herein is provided for discussion and information purposes only. No offering of interests in any timber funds managed by GMO Renewable Resources, LLC (the "Manager") is made or implied as a result of the circulation hereof.

These materials include projections of anticipated future performance of investments of the type made by investment funds currently managed, or to be managed in the future, by the Manager and other forward-looking statements. Projections and forward-looking statements are based on current expectations, beliefs, assumptions, estimates and projections about market conditions. The projections and forward-looking statements included herein, or otherwise made orally or in writing from time to time, are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict as well as factors that are beyond the Manager's control. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such projections and forward-looking statements.

The information presented herein is proprietary and confidential, may contain commercial or financial information, trade secrets and/or intellectual property of the Manager and/or its affiliates, and may not be reproduced or distributed without the express written consent of the Manager. If this information is provided to an entity or agency that has, or is subject to, open records or open meeting laws or similar or related laws, rules, regulations or policies that do or may permit disclosure of any portion of this information to any person or entity other than the entity to which it was provided by the Manager (collectively, the "Sunshine Laws"), the Manager hereby asserts any and all available exemptions, exceptions, procedures, rights to prior consultation or other protection from disclosure which may be available to it under applicable Sunshine Laws.

1. haul - 40 miles

2. local consumption - not export product

3. feasibility study needed

Scott Enright  
P.O. Box 42  
O'okala, HI 96774  
enright.scott@gmail.com  
808-854-1200

October 9, 2009

Department of Land and Natural Resources  
Attn: Chairperson Laura Thielen and Board Members  
1151 Punchbowl Street, Room 130,  
Honolulu, Hawaii 96813

Re: Amendment #6 of Timber Land License No. H-101 held by Tradewinds Forest Products, LLC.

The purpose of this testimony is to recommend the Board deny Amendment #6 of Timber Land License No. H-101 held by Tradewinds Forest Products, LLC. It is the Board's duty and obligation to hold Tradewinds CEO Mr. Don Bryan accountable for his claims and current contracts and to hold him to Amendment #4 as written. Further, given Tradewinds nine-year history of noncompliance and nonperformance, it is the Board's obligation to not consider moving forward on Amendment #6 until Tradewinds timber lease and business plan are fully analyzed for feasibility by the Department of Business, Economic Development and Tourism.

#### **Unsubstantiated claims made by Tradewinds**

In my testimony and submittals of the last two years, I have attempted to bring the Board's attention to Tradewinds' nine-year history of noncompliance to any and all of the milestones set forth in the contract and amendments. I asked the Board to require that Tradewinds substantiate their claims made in their submittals. Had the Board done that, they would have discovered that Tradewinds lacked the necessary financing to move forward. The reason the Board is here today being asked to consider Amendment #6 is because Tradewinds is yet again unable to secure financing to hit the milestones set forth in Amendment #4, namely completed county permits by Dec. 2009 and completed construction by Dec. 2010.

#### **A breach of the public trust**

As I have expressed on numerous occasions to the Board in my public testimony, it is the responsibility of the Board of Land and Natural Resources to protect the state's interest, and anything less is a breach of public trust. In the course of this nine-year timber lease history, it has been the responsibility of the Board to verify the capacity and competency of Tradewinds. But the history of this timber lease is one of baseless claims and non-performance on the part of Tradewinds that have been met by nothing but accommodating amendments by the Board. This pattern must stop now.

The Board cannot in good faith move forward on Amendment #6 without performing due diligence. Amendment #6 asks the Board to transfer the License, delegate the authority to the Chairperson to extend the license term for an additional 10 years, modify the veneer mill permit deadlines, and modify the License to change the deadline for mill construction completion. The Board is being asked for this by a licensee who has yet to hit a milestone or substantiate that their financing is firmly in place.

At the June 12, 2009, Board meeting, the minutes reflect the Chair as saying that she "had concerns because she doesn't think Mr. Bryan can guarantee he can get his financing." The Chair was further quoted in the minutes of that meeting as saying that she "is not interested in the promises of what's going to happen in the future." But I direct the Board's attention to the very first line of today's Tradewinds submittal, where it states that "Tradewinds is very close to completing the needed financing to construct and start up its veneer mill in O'okala." It goes on to say that Tradewinds now expects "this combined debt and equity financing to close near the end of November." Again, there are no letters intent, no contracts, no substantiating documentation to these claims, just a promise that the needed financing is on the horizon. The Board needs to consider that in reading the minutes of every Board meeting of the past nine years with Tradewinds on the agenda, Mr. Bryan has told the various Boards and Chairs time and time again that the financing is just on the horizon. And today is no exception.

Tradewinds veneer mill and power plant concept, utilizing eucalyptus as its primary feed stock, is an experimental start-up business plan. In a business concept like Tradewinds, the devil is in the details as to whether or not it's an economically feasible idea. As Board member Mr. Pacheco stated at the June 12, 2009, Board meeting, "The Board depends on staff to do due diligence." But in the case of this timber lease, researching the details— such as financing, the state of the market for veneer, verification of buyers, transportation and infrastructure costs, permitting schedules, and development of needed supportive industry such as trucking— is beyond the capacity of the staff at the Department of Forestry and Wildlife. The Board has been poorly served by this lack of due diligence over the course of this nine-year timber license.

The public interest can only be served if due diligence is performed. Just as this Board sent the application from potential lessee Hamakua Biomass Energy to the Department of Business, Economic Development and Tourism for analysis of the feasibility of their business plan, I respectfully request that the Board take no action on Amendment #6 until a detailed feasibility analysis is conducted by DBEDT on Tradewinds business plan.

I appreciate your consideration of my concerns and look forward to your prompt action on these important matters.

Sincerely,

Scott Enright

VIA email to: [michael.constantinides@hawaii.gov](mailto:michael.constantinides@hawaii.gov)  
[paul.j.conry@hawaii.gov](mailto:paul.j.conry@hawaii.gov)

November 9, 2010

Mrs. Laura Thielen  
Chairperson – Board of Land and Natural Resources  
State of Hawaii Department of Land & Natural Resources  
Kalanimoku Building  
1151 Punchbowl St., Room 130  
Honolulu, HI 96813

Chairperson Thielen:

It has come to my attention that the Board of Land and Natural Resources (the “Board”) will review the status of the Timber License No. H-101 (the “License”) held by Tradewinds Forest Products, LLC (“Tradewinds” or the “Project”) and possibly terminate the License at its December 1<sup>st</sup> meeting. A termination of the license would severely jeopardize the Tradewinds’ O’okala veneer mill project and could prevent the eventual creation of more than one hundred new jobs on the Hamakua coast. Tradewinds strongly opposes a termination of the License. The License is vital to the success of a veneer mill and will be instrumental in creating new jobs on the Hamakua coast.

The members of Tradewinds have made many difficult decisions in recent months, one of which was to suspend prepayments under the License for Waiakea timber. Tradewinds has already made payments of roughly \$740,000 under the License. Of these payments \$575,000 was in the form of timber prepayments for which Tradewinds has yet to harvest and \$165,000 was in the form of extension or other payments. We would like to propose a workable solution for both the Hawaii Department of Land & Natural Resources (the “DLNR”) and Tradewinds. Before making that proposal I would like to briefly review the history of Tradewinds and the circumstances that led to its current status.

Despite the current economic stress and hurdles Tradewinds has faced over the last five years the Project has made significant development progress. The following list includes a summary of the development progress achieved by Tradewinds prior the DLNR Board meeting in October of last year:

1. Purchased a thirty acre industrial site in O’okala.
2. Received an air permit from the Hawaii Department of Health.
3. Executed an equipment supply agreements for the cogeneration facility.
4. Signed a power purchase agreement with Hawaiian Electric.
5. Earned the support of all pertinent federal, state and local elected officials.
6. Executed a contract to sell 30% of the mill’s output.



7. Executed memorandums of understanding with various veneer customers on the mainland and in Japan.
8. Completed the lathe and dryer equipment supply contract.
9. Completed eight tests at different sites on the mainland and in Japan of Hawaiian eucalyptus.
10. Made equipment deposits or expenditures exceeding \$1 million.
11. Completed over \$2 million of design and engineering work.
12. Invested over \$8 million in total development expenses.

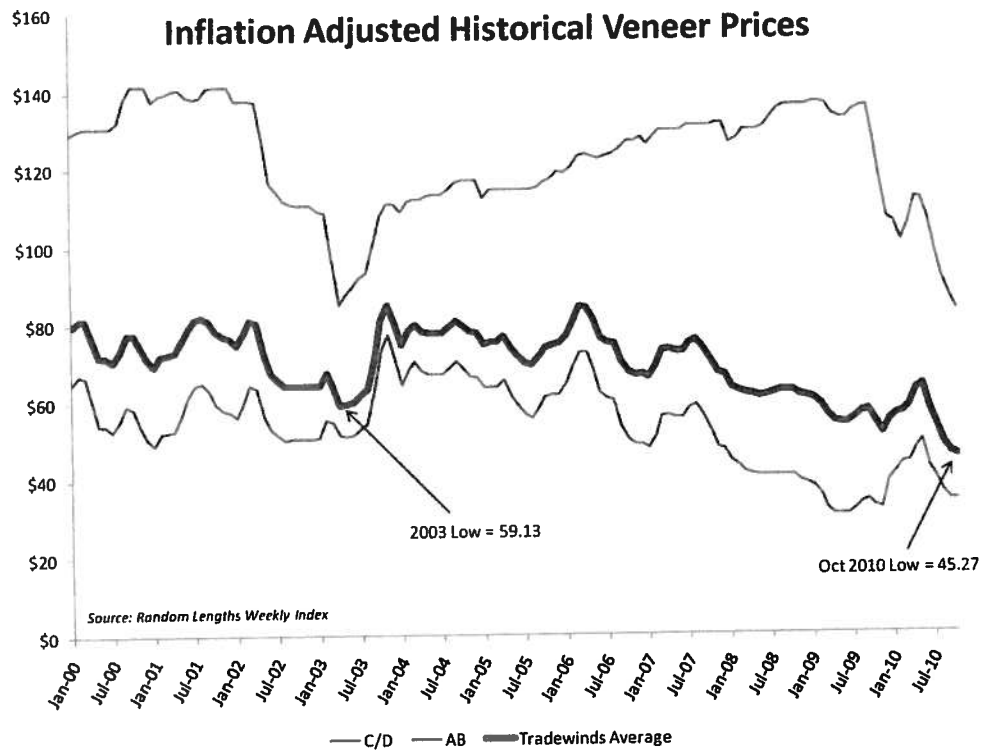
Since the Board meeting in October of last year Tradewinds has completed the following development milestones:

1. Closed \$25 million financing with GE Capital.
2. Finalized the merger with GMO Renewable Resources ("GMO") which secured the 13,000 acre Hamakua plantation as a resource for Tradewinds.
3. Secured equity commitments from Rockland and GMO totaling \$20 million.
4. Executed a contract to complete storm water management work on site.
5. Completed an additional \$800,000 of engineering and design work.
6. Completed demolition of two derelict buildings.
7. Negotiated a turnkey contract for full veneer mill construction.
8. Received County of Hawaii plan approvals.
9. Invested more than \$4 million towards the development and construction of the Project.

The accomplishments above were achieved despite numerous hurdles. Furthermore, to our knowledge there is no other forest products project or biomass power plant on the Island of Hawaii that has achieved this advanced stage of development.

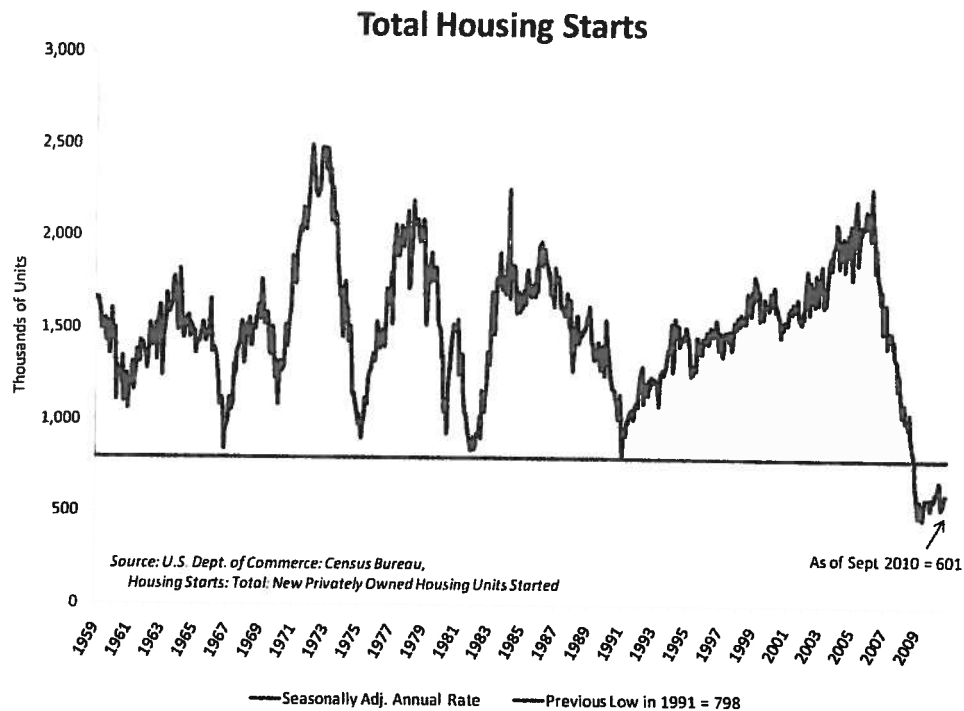
Since Tradewinds representatives appeared before the Board last October, there has been continued unprecedented weakness in the housing sector and the overall economy. This continued weakness has caused Tradewinds to take some drastic measures to preserve capital and cut expenses. In an effort to communicate the magnitude of the economic weakness we have provided several graphics. The graph below shows a price history of C/D (lower value) and A/B (higher value) veneer over the last ten years. The higher value A/B veneer has fallen roughly 35% from its levels in October 2009. Both A/B and C/D veneer prices are at or near their 10-year lows. We have included a composite weighted average price that Tradewinds receives based on its projected sales. This composite price is almost 23% below the lows touched in 2003 making the project uneconomic without some kind of recovery.

(Veneer price graph included on following page)



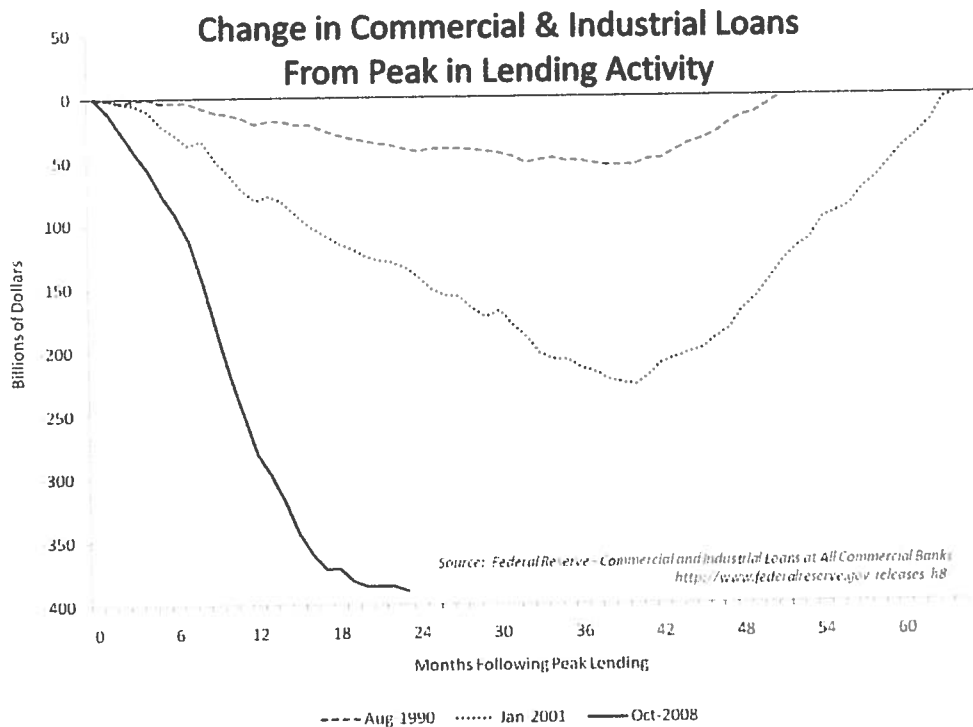
The housing market is the primary consumer of laminated veneer lumber and engineered wood products. The veneer Tradewinds will produce supplies this market. The housing sector has experienced unparalleled declines and has remained at unprecedented low levels for an extended period of time. As of September 2010, total housing starts as reported by the U.S. Department of Commerce remain 24% below the all-time low recorded in 1991 and roughly 60% below the historical average. These levels have not been experienced in the fifty year history the statistic has been tracked. The following graph shows total housing starts since 1959. The unprecedented collapse in housing has generated pervasive pessimism affecting investors and their willingness to proceed in nearly every investment sector. It has especially affected the view of investors towards the housing sector which veneer production is related.

(Housing starts graph included on following page)



We have included the graph below to illustrate the radical decline in financing activity. This graph shows the reduction in lending from the start of three separate lending contractions. As depicted by the red line, the credit crisis beginning in October 2008 has been more severe and the decrease in financing activity has occurred much more rapidly than any lending contraction dating back to 1947. As of September 2010, total net lending to commercial and industrial projects has declined by \$390 billion or 25% from levels observed in September 2008. This decline is 70% greater than the \$227 billion financing contraction resulting from the 2001 technology bust combined with the ensuing energy financial crisis. New lending to forest products manufacturing facilities is at a virtual standstill, particularly for new projects. This is corroborated by our experience with banks in 2010. We have not found any bank interested in a project financing.

(Commercial lending graph included on following page)



The data clearly indicates what we all know. We are experiencing unprecedented economic times in the housing, veneer and ancillary markets. Tradewinds has taken the measures in light of the economic circumstances it deems prudent, including suspending all payments under the License and terminating Tradewinds' employees.

In light of the actions taken by Tradewinds, Don Bryan and several of the recent employees of Tradewinds have formed a new entity called Tradewinds Hawaiian Woods ("THW") to continue the development of the veneer mill while Tradewinds waits for the economy to improve. All of the members of THW are working without pay because of their personal commitment to the project. Although Tradewinds currently retains the License and other development assets related to the veneer mill and cogeneration facility, Tradewinds supports Don's efforts to move the development forward. Tradewinds has executed a non-circumvent agreement with THW expressing our willingness to work with THW and partners identified by THW. Once THW identifies a viable partner, Tradewinds intends to cooperate with THW to move the Project forward. The members of Tradewinds are fully supportive of these efforts and believe that when the housing and ancillary markets improve a forest products industry that includes high value veneer mill will maximize the value of our assets, the value of the DLNR timber resources, and provide positive benefits to the State of Hawaii. Terminating the License now would almost certainly ensure the collapse of THW's efforts to move the veneer mill forward.

While there is a biomass power plant in early stage development, such a power plant has the alternative of using low value wood which would not be suitable for developing a forest products industry. Biomass

is available on Hawaii Island from both public and private plantations. We support the development of a biomass power plant on Hawaii Island but we do not believe it makes sense to fuel it with the high value Waiakea timber. To a veneer mill the Waiakea supply will be absolutely vital.

In the email dated July 22, 2010 addressed to George Motta of GMO, you raised several areas of concern where you state that Tradewinds appeared to be in default of the License. Regarding Tradewinds' requirement to provide adequate assurances as to securing construction financing, on December 23, 2009 Tradewinds' affiliate, Sunbear LLC closed a \$25 million dollar financing with GE Capital. On December 30, 2009 we closed a merger with GMO and their 13,000 acre Hamakua plantation. Concurrent with the December 30<sup>th</sup> merger, proceeds from the GE Capital loan were funded into a restricted account at Tradewinds and the investors in Tradewinds executed commitments to fund \$20 million of equity into the Project. The Hawaii County "County Approval Plan" was delayed beyond the February 28, 2010 deadline due to additional data requests made by the County. The County Approval Plan was issued on April 26, 2010 and is attached for your review. Finally, as noted in your email, Tradewinds has not paid the \$50,000 option payment to extend completion of the mill beyond July 1, 2010 and as of the date of this letter Tradewinds had not paid its June 2010 monthly stumpage prepayment or subsequent monthly stumpage prepayments of \$25,000.

Given the unique value of the License to a veneer mill and THW's ongoing efforts to identify a development partner, Tradewinds requests that the Board consider the following proposal. Tradewinds proposes that the Board extend the deadline for achieving operations until December 31, 2012 to provide adequate time for the economy to recover and allow THW to identify a development partner. However, the Board would reserve the unilateral right to terminate the License with a six month notice to Tradewinds. In the event the Board notifies Tradewinds of its intent to terminate, Tradewinds could only prevent the termination by bringing the License current on all delinquent payments. The six month termination provision will provide prospective development partners comfort that they have adequate time to engage in due diligence to evaluate their interest in the Project, while leaving the DLNR with alternatives.

The DLNR, with commendable foresight, established the Waiakea forest as a demonstration forest and an inducement to attract the forest products industry to Hawaii. For perspective, it took almost 30 years before there was a meaningful response from industry. In part as a direct result, and in part as an indirect result of that effort, Tradewinds Forest Products and its affiliate Sunbear LLC have together have made the largest investment in forestry ever made in Hawaii. Virtually on the eve of starting construction, a broad economic collapse combined with an unprecedented collapse in the housing market has shaken investors' confidence and brought project lending to the forest products industry to a virtual standstill. With more than a decade of hard work behind it and millions of unrecoverable dollars expended, the outcome is in jeopardy. If this venture fails, we believe it will be a significant setback for forestry in Hawaii. Unlike other struggling companies in recent years we are not coming to government asking for a hand out. Indeed, as mentioned above, Tradewinds has made payments to the state of more than \$700,000. Tradewinds founders continue to work on the project without pay because they believe in forestry in Hawaii.

What we do ask is your forbearance in terminating this monumental effort. We are encouraged with the progress THW continues to make towards the eventual construction of the mill. THW continues to advance discussions with several strategic investors. Although the current economic environment and state of the housing industry is relatively bleak, we are optimistic regarding the eventual recovery. The Project is well positioned to commence construction at the first meaningful evidence of recovery, particularly in the housing industry.

Tradewinds would like to express its sincere appreciation to the DLNR for their professionalism and commitment to this worthwhile project.

Respectfully,



Will Zapalac  
Tradewinds Forest Products, LLC  
24 Waterway Avenue, Suite 800  
The Woodlands, Texas 77380